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SUBJECT: VODAFONE WINS TURKISH MOBILE OPERATOR TELSIM

Sensitive But Unclassified. Please handle accordingly.

This cable was coordinated with Congen Istanbul.

1. (SBU) Summary: In another demonstration of Turkey's growing attractiveness to foreign investors and a welcome injection of competition into the mobile phone market, British giant Vodafone won the competition for Turkey's second largest GSM operator Telsim with a \$4.55 billion bid. The sale also closed the books on the longstanding dispute between Telsim and Motorola and Nokia, which had been defrauded by Telsim's former owners to the tune of \$2.8 billion. The sale to a world class operator should improve standards in Turkey's underdeveloped telecom sector, benefiting Turkish users and creating opportunities for foreign and domestic investors. End Summary.

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Telsim Auction: GOT and Vodafone Get What They Want  
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2. (SBU) In a televised December 13 auction conducted by the Savings and Deposit Insurance Fund (SDIF), Vodafone's \$4.55 billion bid beat out Kuwaiti MTC Telecom to take 100% control of Telsim, Turkey's second largest mobile provider. The two other bidders, Egypt's Orascom and Dubai's Etisalat, withdrew from the fiercely competitive action early on. Telsim was seized by the SDIF in February 2004 from its former owners, the notorious Uzan family, following discovery of a massive fraud at the family's Imar Bank. Telsim and the Uzans had previously been sued by Motorola and Nokia for a fraud involving non-payment of \$2.8 billion the companies had lent to Telsim in the form of cash and equipment.

3. (SBU) Per its prior settlement agreement with the two companies, SDIF will pay Motorola 20 percent of the sale proceeds in excess of USD 2.5 billion, on top of an earlier cash payment of \$500 million. Similarly, Nokia will receive 7.5 percent of the excess. Thus, the two companies will receive a total of \$1.25 billion on their \$2.8 billion claim (not including interest), a far better result than appeared likely several years ago. SDIF will bear the risk of any subsequent legal challenge by the Uzans. As part of the deal, the companies agreed to drop the legal proceedings, including a case brought to the World Bank's ICSID dispute resolution body, that have long soured Turkey's investment climate.

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Welcome Competition in Telecom Sector  
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4. (SBU) After the auction, Vodafone Group Director for Mergers and Acquisitions Andre Sokol said Vodafone plans to rename the company and invest an additional \$1.2 billion over the next three years to introduce new relay stations, upgrade the existing network and elevate Telsim to Vodafone standards. With a mobile penetration rate of only 53%, there is considerable room for improved service in Turkey. Istanbul analysts also welcomed the sale for the additional competition Vodafone will provide to the dominant mobile company Turkcell, whose share price declined by 6.4% on the news. Transport and Telecom Minister Binali Yildirim said the positive tide in the telecommunications sector launched by Turk Telekom's recent partial privatization continued. Responding to nationalist fears of foreign domination of the sector, Yildirim said mechanisms to control the functioning of all companies in Turkey, domestic and foreign, were in place.

5. (SBU) Formal transfer of Telsim to Vodafone will take place after the SDIF Board, the Council of State (Danistay), the Telecommunications Authority and the Competition Authority approve the sale. Telsim CEO

Ferruh Tunc said he expected the transfer to be finalized before March 2006.

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Comment  
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16. (SBU) In addition to resolving the longstanding dispute with Motorola and Nokia, lower-cost and higher quality telecom services brought about by more competition should help create other new investment opportunities in Turkey, including for U.S. companies. Still, some analysts, like EFG Securities Osman Memisoglu, raised raised concerns with CONGEN that investors may have overpaid for Telsim, as some also think they did in the recent privatizations of refinery company Tupras and Ergeli Steel. The sale proceeds will, however, provide a boost to the SDIF's efforts to recover the huge costs of cleaning up Turkey's banking sector following the 2001 crisis. From a balance of payments perspective, the net inflow of \$4.2 billion (including the \$400 million VAT Vodafone will pay on the purchase) will provide a welcome stream of long-term stable financing for the current account deficit.  
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